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CHAPTER 8

Other Lending Activities

REFINANCING distress mortgages constituted, of course, the major work of the Home Owners' Loan Corporation. The Corporation's activities, however, included several other types of lending, both during the original lending period—from June 1933 to June 1936—and later. These consisted of loans for reconditioning, insurance and taxes, refundings of loans in default, extensions, and credits extended in connection with the sale of foreclosed properties. Table 36 shows advances from June 13, 1933, to March 31, 1951, classified according to purpose.

LOANS FOR MAINTENANCE AND RECONDITIONING

Cash was sometimes advanced for property repairs in the HOLC's original lending, but as a rule only for those repairs necessary to prevent, or possibly to offset, serious structural deterioration as distinguished from normal depreciation and obsolescence.[1] Authorized by the Home Owners' Loan Act of 1933 to make advances for *necessary* repairs and maintenance [2] (referred to hereafter as maintenance loans), and wishing to conserve its resources for cases of real need, the HOLC generally restricted these loans to financing such things as roofing, repairs to plumbing and heating systems, and the strengthening of foundations; remodeling, modernization, painting and decorating, and landscaping loans were seldom made.

Less than a year after the first HOLC loan had been made, however, Congress authorized the advance of cash or bonds for "the rehabilitation, modernization, rebuilding and enlargement" of homes on which it had made, or was about to make, refinancing loans (referred to hereafter as loans for reconditioning).[3] The total maximum loan

[1] The HOLC was free to obtain funds for making repair and maintenance loans by selling its bonds in the general market. It was not required to transfer the bonds themselves to contractors to pay for repairs.

[2] June 13, 1933, c. 64, 48 Stat. 128, Sec. 4 (d).

[3] April 27, 1934, c. 168, 48 Stat. 643, Sec. 2. This was the act guaranteeing the principal of HOLC bonds.

on any property was limited to 80 percent of the HOLC appraisal value, or to $14,000 (whichever was less), and no loan could be made if the value was above $20,000; the funds for such rehabilitation loans were limited first to $200 million but were ultimately raised to $400 million.[4] The dominant objective of this liberalization appears to have been to stimulate the construction industry and business generally, but other ends were sought as well: to provide more aid to home owners, to improve the security for HOLC loans, and possibly to aid in making properties more nearly self-supporting by the addition of income-producing features.

TABLE 36 — ADVANCES BY THE HOLC TO ORIGINAL BORROWERS, BY PURPOSE OF ADVANCE, JUNE 13, 1933-MARCH 31, 1951 [a]
(in thousands)

Fiscal Year	*Taxes*	*Insurance*	*Maintenance*	*Miscellaneous* [b]	*Total* [b]
1934	$2	$17	..	..	$19
1935	85	391	$4	$1	481
1936	1,564	2,145	311	22	4,042
1937	11,349	1,216	528	66	13,159
1938	18,607	1,270	386	133	20,396
1939	36,992	1,069	415	146	38,622
1940	66,283	778	887	882	68,830
1941	13,166	1,103	895	590	15,754
1942–51	15,047	1,257	1,593	406	18,303
Total	$163,095	$9,246	$5,019	$2,246	$179,606

[a] *Ninth Annual Report,* Federal Home Loan Bank Board (June 30, 1941) p. 144; and data made available by the HOLC.
[b] Excludes foreclosure costs of $3.8 million.

By the end of 1934, 464,836 applications for $93 million of reconditioning loans had been filed, an average of about $200 per property; 185,229 applications were granted, in part at least, for a total of

[4] June 27, 1934, c. 847, 48 Stat. 1246, Sec. 506 (b); May 28, 1935, c. 150, 49 Stat. 293, Sec. 16. The fact that it raised the limit twice suggests that Congress was actively interested in permitting the HOLC to make reconditioning loans. Although the arguments were not developed in detail, one can point to certain advantages of "reconditioning" spending as a possible stimulant to the general economy. This spending would be widespread, so that the stimulating effects would not be concentrated in a few areas. It could be administered without the apparent wastes of "boondogling." Since it would consist of a multitude of relatively small projects, extensive and time-consuming planning would not be required. The home owner, who would have to pay ultimately, would generally be at hand to press for economy.

$33 million, an average of about $175 per case; 96 percent of those filed were classified as for repair and only 4 percent for modernization and remodeling.[5] By July 2, 1936—roughly the date when the last original loan was made—675,042 applications for reconditioning loans had been received; 478,467 had been approved for $99 million, and formal contracts for 361,353 cases totaling $71 million had been let; of these cases, 336,058 jobs had already been completed for $64 million;[6] in addition, 23,777 reconditioning jobs were financed primarily by proceeds from insurance; 303,178 cases had been withdrawn or suspended.[7] By June 30, 1937, 444,226 reconditioning contracts had been completed for a total of about $83 million, roughly $190 a case;[8] 24,186 of these cases were financed primarily by insurance proceeds and 49,227 were on properties the HOLC had acquired. All but about 6,500 of these loans for reconditioning were made to borrowers during the original lending period, and with minor exceptions the amounts were included in the original loans; presumably, most of these advances could not have been made under the original terms limiting advances for repairs to those that were "necessary."

No data are available on the way the outlays were distributed in the early years. A 1938 analysis of reconditioning outlays on properties the HOLC had acquired showed the following distribution:[9]

Interior decorating	39%
Exterior painting	22
Carpentry and millwork	12
Heating, plumbing, and electrical facilities	9
Roofing and sheet metal	7
Brick, stone, and tile	3
Stoves and ranges	2

5 *Second Annual Report*, Federal Home Loan Bank Board (December 31, 1934) p. 83.

6 This was equal to about 3 percent of the economy's total expenditures on new nonfarm, residential construction during the period from September 1933 to December 1936. If the total $400 million authorized by Congress had been spent during the lending period, or within six months of its end (that is, by December 1936), total national outlays on construction would have been increased by an amount equal to about 18 percent of outlays on new nonfarm residences, ignoring secondary effects.

7 *Fourth Annual Report*, Federal Home Loan Bank Board (June 30, 1936) Exhibit 12, p. 125.

8 *Fifth Annual Report*, Federal Home Loan Bank Board (June 30, 1937) p. 32.

9 *Sixth Annual Report*, Federal Home Loan Bank Board (June 30, 1938) Chart 18, p. 88. Estimates based on a sample study of representative reconditioning cases on acquired properties in process during March 1938.

Plastering and stucco	1
Landscaping	1
Miscellaneous (hardware, cleaning, shades, etc.)	4
	100%

Advances made by the HOLC to original borrowers for maintenance purposes—and these were probably not greatly different from the reconditioning loans later authorized by Congress—continued after the end of the original lending period but in very small amounts.[10] Through March 31, 1951, the total loaned on this basis was only about $5 million (Table 36). Reconditioning loans totaling roughly $80 million fell far short of the amount authorized: nearly half of all applications were rejected, and $320 million of lending power was unused (roughly $350 million, if it is assumed that one-third of the reconditioning loans might have been made under the earlier authority to make necessary repair and maintenance loans). It is not possible, of course, to give a definitive answer to the question of why more loans were not made, but it was probably due to a combination of circumstances, including the HOLC's desire to encourage lending by private agencies, its wish to limit its own risks and to protect borrowers from overextending themselves, and, finally, to the fact that in the early days of HOLC operations the applications of borrowers for reconditioning loans had to be subordinated to the more urgent needs of refinancing.

Tax and Insurance Accounts

Of the total funds disbursed by the HOLC during the original lending period—$3.1 billion—$208 million were extended for unpaid taxes, $25 million for special assessments, and $6 million for the payment of insurance premiums. Also, it was necessary from time to time after the HOLC refinancing had been completed to make additional advances to borrowers to pay delinquent taxes or to finance the maintenance of adequate insurance protection for the property. By 1951, a total of approximately $171 million additional funds had been loaned on original and vendee loans for taxes and another $10 million for the payment of insurance premiums.

Despite the fact that borrowers agreed to keep up taxes and insurance when the original loans were made, by 1937 the HOLC found

10 Most delays resulted apparently from legal complications.

that 40 percent of them had become delinquent in paying their taxes in one or more years after their first HOLC loan.[11] Insurance premiums were less burdensome, of course, but by 1934 the HOLC found that advances were necessary to prevent lapses in about half of the cases in which insurance policies were expiring; by 1937 these cases had fallen to about one in ten, mainly as a result of the HOLC's vigilance.[12]

Tax delinquency and the lapsing of insurance protection presented serious problems both to the HOLC and to the mortgagors; yet despite the HOLC's efforts to prevent such incidents, and the severity of the tax laws against tax delinquency (interest on tax arrears at the rate of 1 percent a month and the right of the government to sell the property to recover taxes—after three years delinquency as a rule—were not unusual), additional steps had to be taken to reduce the practice. A special section was established by the HOLC to handle insurance problems before the end of its original lending period, and in 1937 an intensive program was started to eliminate and prevent further accumulation of tax arrears. A more satisfactory method of handling the tax problem was sought in a system under which borrowers might make monthly deposits with the HOLC to repay tax advances (where these had been made) and to accumulate funds to pay accruing taxes. In June 1938, 34,116 borrowers, whose accounts represented 3.5 percent of all outstanding loans, had such accounts.[13] Nevertheless, a year later, the HOLC reported that 227,-317 borrowers were in default on taxes, 10 percent for considerably more than two years; over half of these were also in default on their loan accounts.[14] Renewed efforts were made to get borrowers to pay off arrearages, but where the borrower was unable to do so the HOLC continued to make tax advances.

A more formalized system was installed under which borrowers allowed the HOLC to add one-twelfth of the estimated annual tax to the amount due monthly on interest and principal. Actual payment to the local government was made annually by the HOLC from the

11 *Sixth Annual Report,* Federal Home Loan Bank Board (June 30, 1938) p. 75.

12 *Fifth Annual Report,* Federal Home Loan Bank Board (June 30, 1937) p. 35.

13 *Sixth Annual Report,* Federal Home Loan Bank Board (June 30, 1938) p. 75.

14 *Seventh Annual Report,* Federal Home Loan Bank Board (June 30, 1939) pp. 131-32.

accumulated tax fund. Funds to pay accruing insurance premiums were also added to the monthly payments; these, too, were paid out directly by the HOLC. Borrowers were strongly urged to participate. Moreover, signing of a tax and insurance agreement was made a necessary condition for obtaining loan extension and for the purchase of a property from the HOLC (except for cash). Because of the Mead-Barry Act of 1939, described in the next section, there was an active demand for extensions just when borrowers were being pressed to participate. By June 30, 1940, 328,074 accounts—38.3 percent of all those outstanding—had tax and insurance agreements. Whereas in July 1939, 205,045 accounts (24.2 percent of the total active accounts) were in arrears on taxes, the number had fallen to 44,065 in June 1940 (5.1 percent).[15] During 1942 more than 50 percent of all accounts had such agreements, and, by the end of 1948, 78 percent had enrolled.

A huge amount of detailed record-keeping was required by the tax and insurance accounts. There were monthly postings of payments to individual ledger cards, extra work in accounting and billing, determination of the amounts of tax due and timely payment to the proper official, and safekeeping and renewal of insurance policies. In 1938, for example, 727,641 insurance policies expired and roughly one million tax vouchers had to be prepared.[16] Commissions earned for servicing the insurance contracts helped pay operating costs.[17]

Obtaining the cooperation of tax authorities was difficult in many communities, especially where records and organization were not

[15] *Eighth Annual Report,* Federal Home Loan Bank Board (June 30, 1940) p. 128.

[16] U. S. Congress, House, Hearings before the Subcommittee of the Committee on Appropriations on the *Independent Offices Appropriation Bill for 1940,* 76th Congress, 1st Session (1939) pp. 1318-19.

[17] These commissions, allowed by the insurance companies, averaged about 15 percent of the standard insurance premiums. For the 1940 fiscal year, total costs of operating the tax and insurance section were probably somewhat over $1 million; they declined thereafter. During the forties, when the system was well established, commissions were well above direct operating costs. As noted in Chapter 7, the HOLC's efforts to reduce fire hazards were extended, in varying degrees, to all borrowers. The success of these efforts helped in overcoming some reluctance of insurance companies to granting the HOLC commissions for helping service policies. The HOLC paid borrowers no interest on funds received in advance of the date of payment to the local government or to the insurance company. Since the HOLC had the use of these funds, it presumably saved some interest as a result. For the ten-year period ending in 1948 it is estimated that the HOLC saved interest charges of $1,312,500. Other savings were the estimated $300,000 a year spent at one time in searching tax records, the heavy expenses of following up borrower tax delinquencies, and probable avoidance of many foreclosures.

such as readily to provide the HOLC with all necessary information.[18] It was not long, however, before the advantages of the system to the taxing governments were widely recognized.

Refunding of Loans in Default

Delinquency gave rise to another form of "lending." When a borrower temporarily got in arrears on his instalment payments (because of unemployment, family illness, or other reason) and was then able to resume his payments, the HOLC tolerated the delinquency to varying degree. It did not always recast the loan, however, but pressed the borrower to increase his monthly payments until he had eliminated the arrearage. More formal arrangements were also made to extend arrearages.

The Home Owners' Loan Act stated that "The Corporation may at any time grant an extension of time to any home owner for the payment of any instalment of principal or interest owed by him to the Corporation if, in the judgment of the Corporation, the circumstances of the home owner and the condition of the security justify such extension. . . .[19] Under a policy initiated in February 1937 this authority was widely used. By refraining from immediate foreclosure action, the HOLC was in effect granting an extension, but the term came to be applied only to those cases in which there was a formal loan extension agreement extending the time for the payment of any instalment of principal and interest owed the HOLC. Where the HOLC believed, however, that the borrower had some chance to meet the obligation, and a sincere desire to do so, the contract would be revised, all or part of the amount in default would be added to the principal of the loan, the account would be readmitted to good standing, and the monthly payments would be increased to amortize the remaining balance in not more than fifteen years from the date the loan was originally made. Although quicker amortization was often provided for, it was less often accomplished.

Finally, a loan might be the subject of more than one extension. From February 1937 to July 1939, just under 82,000 original loans were extended, which, at the time, were roughly 10 percent of the accounts outstanding. In its report for 1938 the HOLC stated that the

[18] In the thirties, a very large number of local governments did not mail property tax bills.

[19] June 13, 1933, c. 64, 48 Stat. 128, Sec. 4 (d).

payment record of these accounts was good; but since over half of the extensions were less than a year old, it is obvious that the judgment was based on very limited experience. At the same time, an additional large number of accounts (115,579) were in default on principal, interest, and taxes.[20]

Extension of Contract Term Under Mead-Barry Act

Although the HOLC felt that it was being as considerate as possible, there was strong public pressure for it to grant even more generous terms. By 1938, frequent references were made to the desirability of according longer periods for amortization of principal and to liberalize terms in other ways, notably by reducing the interest rate.

The HOLC's chief reason for opposing this liberalization was the danger of loss.[21] The loans had originally been of poor quality; the properties securing them were old; and borrowers had already received such favorable terms that the losses were not recoverable, and any additional liberalization would inevitably increase them. Such losses, the HOLC argued, would impose unjustified burdens on the taxpayers generally for the benefit of about 3 percent of the population. It was argued, further, that the proposed aid would not materially alleviate the circumstances of embarrassed borrowers, that extensions were, in fact, being made in all cases where there was real need and a reasonable prospect of eventual repayment of the obligation, that some families were "overhoused" and could effectively solve their problem only by sale of the property and use of more modest quarters, and, finally, that the seriousness of the foreclosure situation had been greatly exaggerated, considering the fact that many foreclosures were due to property abandonment, willful default, non-cooperation, death of borrower, or legal complications, none of which was likely to be improved appreciably by the reduction of the monthly payment. Additional reasons cited were: the recasting of loans would be expensive; borrowers who had not retired all of the loan by the end of the fifteen-year period should be able to get private financing if the security were good enough for an HOLC loan; evidence of the failure of the HOLC to grant extensions in deserving cases had not been presented.

20 *Seventh Annual Report,* Federal Home Loan Bank Board (June 30, 1939) p. 131.
21 *Sixth Annual Report,* Federal Home Loan Bank Board (June 30, 1938) pp. 94-96.

The controversy continued, with the HOLC holding to its opposition, but, in the summer of 1939, the Corporation announced that it would favor legislation giving it discretionary power to lengthen the contract term.[22] With administration support the Mead-Barry Act was passed, authorizing the HOLC, at its discretion, to allow a period up to twenty-five years from the date of the loan for repayment on original loans and twenty years on vendee loans. The Act became law in August 1939.[23]

The HOLC began at once to use its new authority. All accounts that were in default at the time were reviewed; most foreclosure actions were temporarily suspended to see if foreclosures might be forestalled by recasting loans to take advantage of the longer amortization and to take account of the lower interest rate. For a few months, the foreclosure rate dropped and stayed much below what it had been and what it became for a time later on. Foreclosures were made only where extensions would offer no solution, for example, in cases of abandonment of the property, death of the borrower, willful default, hopeless inability to pay, and similar instances. All borrowers were informed of the new law and told that applications for extensions might be filed.

In the first nine months, 229,945 applications for extensions and revisions of contracts were received, of which 192,667 were approved by the HOLC; 16,583 cases were rejected, 9,581 were withdrawn by the applicant, and the balance were still in progress, 5,331 having been approved but not closed. However, only 172,491 of the approved applications involved lengthening of the amortization period. Applications for extensions were made on roughly 30 percent of the loans outstanding during the year.[24] During the next fiscal year (1940-41), 61,134 more extensions of contract term were granted,[25] and in the

22 See, for example, U. S. Congress, House, Hearings before the Subcommittee of the Committee on Appropriations on the *Independent Offices Appropriation Bill for 1940,* 76th Congress, 1st Session (1939) pp. 1355-59. After passage of the Mead-Barry Act, the HOLC used the term "extension" to refer only to loans on which the contract term was lengthened. The terms "recast" or "revised" were used to refer to loans on which past due principal or interest were refunded.

23 August 11, 1939, Part 2, c. 684, 53 Stat. 403. Also, in October 1939, the HOLC voluntarily reduced the rate of interest on all of its loans from 5 percent to 4½ percent.

24 *Eighth Annual Report,* Federal Home Loan Bank Board (June 30, 1940) pp. 124-25.

25 *Ninth Annual Report,* Federal Home Loan Bank Board (June 30, 1941) p. 144. By June 30, 1941, 91 percent of all extensions had been made.

next year, 17,545. Thereafter, the number of extensions increased slowly.

Of the 255,632 Mead-Barry extensions that had been made by March 31, 1951, 249,904 were on original loans and 5,728 were on vendee accounts, that is, on loans made in connection with the HOLC's sale of foreclosed property. When the great bulk had been made, by the end of 1942, they totaled only about 30 percent of the loans outstanding. The number of vendee accounts extended was never over 4 percent. In New York, 34,575 loans (43 percent) were extended under the Mead-Barry Act; in Massachusetts, 42 percent; in New Jersey, 35 percent; in Illinois, 28 percent; in Ohio, 27 percent; in Alabama, 29 percent; in Texas, 13 percent; and in California, 11 percent.

Of the 285,319 extensions (including regular as well as Mead-Barry extensions) made between October 1, 1939 and November 30, 1941, 10 percent were on loans in arrears less than three months, 43 percent in arrears from three to twelve months, 17 percent in arrears from twelve to eighteen months, and 30 percent in arrears for eighteen months and over.[26] Many of the cases in arrears for a year or more would likely have resulted in foreclosure had it not been for the extension of loan contract term.

Extended loans were twice as large on the average as those not extended. As of June 30, 1942, the average outstanding balance on unextended original loans was $1,450; for extended loans the comparable figure was about $2,900. On June 30, 1940, the balances extended were $534 million out of a total amount due of $1,986 million. Two years later, the outstanding balances on extended loans totaled $690 million out of a total then due of $1,689 million. The relative importance of the amounts extended grew so that by the end of the 1946 fiscal year extended amounts were more than half of the total due—$380 million out of a total of $735 million.

To the end of 1942, 35 percent of the Mead-Barry extensions were for the maximum period allowed (twenty-five years) and another 24 percent were extended for over twenty-four but less than twenty-five years (Table 37). In other words, the HOLC did not automatically grant the full extension permitted but attempted to meet the circum-

[26] U. S. Congress, House, Hearings before the Subcommittee of the Committee on Appropriations on the *Independent Offices Appropriation Bill for 1943*, 77th Congress, 2nd Session (1941) p. 982.

stances of each case. In granting extensions, the interest in default was added to the principal as well as advances for taxes and other purposes. One condition for receiving an extension was that the borrower would enter into the tax and insurance agreement discussed above.

TABLE 37 — NUMBER OF ORIGINAL LOANS AND VENDEE ACCOUNTS EXTENDED AND RECAST BY THE HOLC UNDER THE MEAD-BARRY ACT, BY AMORTIZATION PERIOD, OCTOBER 1, 1939-JUNE 30, 1942 [a]

Amortization Period [b] (years)	*Number*	*Percentage of Total*
15 but less than 16	4,496	1.8%
16 but less than 17	6,154	2.5
17 but less than 18	7,962	3.2
18 but less than 19	8,942	3.6
19 but less than 20	10,825	4.3
20 but less than 21	11,378	4.5
21 but less than 22	12,006	4.8
22 but less than 23	15,221	6.1
23 but less than 24	24,539	9.8
24 but less than 25	61,386	24.4
25	88,261	35.1
Total	251,170 [c]	100.0%

[a] U. S. Congress, House, Hearings before the Subcommittee of the Committee on Appropriations on the *Independent Offices Appropriation Bill for 1944,* 78th Congress, 1st Session (1943) p. 1052. Data on vendee accounts exclude cash sales.

[b] Calculated from original date of loan.

[c] The total number of accounts extended under the Mead-Barry Act was 255,632 through March 31, 1951.

VENDEE ACCOUNTS

HOLC lending took still another form—the financing of purchases of properties acquired from original borrowers who had failed to meet their obligations. Such lending was not specifically authorized by the statute that established the HOLC, or by later amendments, but implicit authorization may be found in the statutory provision directing the HOLC to make such rules and regulations not inconsistent with the statute as "may be necessary for the proper conduct of the affairs of the Corporation." [27] To March 31, 1951, the HOLC had acquired and sold 199,854 houses for $738 million (Table 38). On

[27] June 13, 1933, c. 64, 48 Stat. 128, Sec. 4 (k).

TABLE 38 – SUMMARY OF 199,854 VENDEE ACCOUNTS OF THE HOLC, AS OF MARCH 31, 1951[a]
(in thousands)

TOTAL VENDEE ACCOUNTS	$737,768
Cash Sales	*49,726*
Instalment Sales	*688,042*
Extended terms	594,344
Initial payments	93,698
NET BALANCE ORIGINALLY DUE ON INSTALMENT SALES	$594,344
Advances	*9,249*
Taxes	8,078
Insurance	591
Maintenance	341
Miscellaneous[b]	239
Interest Converted to Principal	*206*
TOTAL CAPITALIZATION ON INSTALMENT SALES	$603,799
Repayments of Principal	593,077
Transfers to Property Account	10,722

[a] Data made available by the HOLC.
[b] Includes foreclosure and repossession costs of $99,000.

15,379 of these, cash sales amounting to $50 million were made; on the other 184,475 houses (including 1,639 divisions of security) initial payments of $94 million were made, with the balance of $594 million in some form of "vendee" loan obligation to the HOLC.[28] The average loan on these properties at the time of sale was $3,222. This was somewhat more than the average of its original loans, and considerably less than the average loan amount on properties acquired through foreclosure.

Almost three-fifths of these sales were concentrated in the three fiscal years ending in June 1941, nearly $125 million in the next two fiscal years, and $125 million in the following three fiscal years. A large part of the sales in 1944 and 1945 was made in the New York region, so that the later loans tended to cluster in this region. As of June 30, 1947, $130 million vendee loans (22 percent of the total) were made in New York State and $50 million (almost 9 percent) were made in New Jersey. Illinois and Ohio accounted for over $40 million each, with Massachusetts and Pennsylvania next in impor-

28 The terms of sale are discussed in more detail in Chapter 7.

tance. For reasons discussed in Chapter 7, the record of vendees as borrowers was far more satisfactory than the record of original borrowers.[29]

[29] Through June 30, 1950, the interest yield from vendee accounts was approximately $135 million. At an average interest rate of 4½ percent, this figure represents a total investment of roughly $3 billion over a fifteen-year period. Assuming that the total cost of funds borrowed by the HOLC (at an estimated average interest rate of 2 percent) was $60 million and that the total cost of servicing vendee accounts was $7 million (based on an estimated annual cost of $6 per loan), the net earnings from vendee accounts through June 30, 1950 were around $68 million.